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Report

drawn up on behalf of the Committee on External Economic Relations

on the present state of economic and commercial relations between the
Community and the United States of America

Rapporteur: Mr P.-B. COUSTÉ

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English Edition

By letter of 27 November 1975 the Committee on External Economic Relations requested authorization to draw up a report on the present state of economic and commercial relations between the Community and the United States of America.

Authorization was given by the President of the European Parliament in his letter of 18 December 1975.

On 20 January 1976 the Committee on External Economic Relations appointed Mr Cousté rapporteur.

It considered the draft report at its meetings of 23 and 30 November 1976 and adopted the motion for a resolution and the explanatory statement by 20 votes with 1 abstention on 30 November 1976.

Present: Mr Scott-Hopkins, vice-chairman and acting chairman; Mr Schmidt and Mr Martinelli, vice-chairmen; Mr Amadei, Mr Baas, Mr Bayerl, Mr A. Bertrand (deputizing for Mr Dunne), Mr Brégégère, Mr De Clercq, Mr De Keersmaecker (deputizing for Mr Vandewiele), Mr Didier, Mr Galluzzi, Mrs Kellett-Bowman (deputizing for Mr Dykes), Mr Klepsch, Mr de Koning, Mr Molloy, Mr E. Müller, Mr Nyborg, Mr Pucci, Mr Schulz and Mr Spicer.

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A

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the present state of economic and commercial relations between the Community and the United States of America

The European Parliament,

- having regard to the political, economic, historical and cultural ties between the United States of America and the Member States of the European Community;
 - recognizing that the United States and the Community as such or its Member States have contacts on practically all areas of international policy;
 - whereas their interests and points of view on international questions are broadly parallel and whereas they are closely dependent on one another in the political and economic areas;
 - whereas the United States and the Community are the largest trading units in the world and are each other's most important trading partners;
 - whereas both the United States and the Community are in favour of the expansion and liberalization of world trade;
 - having regard to the report of the Committee on External Economic Relations (Doc.468/76);
1. Finds that the relations between the United States and the Member States of the Community may in general be described as very good;
 2. Notes that, on specific bilateral trade questions, the Community and the United States sometimes pursue divergent aims;
 3. Regrets in particular that last year a number of initiatives were taken in the United States with the intention of restricting imports of certain products from the Community, thus causing serious disquiet here;
 4. Points out that this action based on various provisions of the new 1974 Trade Act will affect exports of Community products having a total value of 4,500 million dollars;

5. Is glad that the American Administration has in general not yielded to the demands made on this point by the private sector;
6. Is of the opinion, however, that the quotas on imports of special steel should be removed at the earliest opportunity;
7. Recalls that bilateral trade between the United States and the nine Member States has increased rapidly since the creation of the EEC in 1958;
8. Points out in this connection that the American balance of trade with the Community has always been in surplus, a surplus which increased markedly in 1974 and 1975;
9. Draws attention to the fact that the increased surplus on the American balance of trade is mainly the result of an imbalance in the agricultural products sector;
10. Notes that in 1975 the value of United States exports of agricultural products to the Community was five times greater than that of imports from the Community and that the Community purchased 35% of all agricultural products sold on the world market;
11. Concludes therefore that the agricultural policy of the Community is less protectionistic than many consider it to be at first sight;
12. Notes, however, with satisfaction that these inequalities in trade have not had any repercussions on political relations between the United States and the Community;
13. Expects that any future measures affecting foreign investment in the United States will not limit direct investment from the Community;
14. Hopes that next year's multilateral trade negotiations (the Tokyo Round) will take place more smoothly than previous rounds and be concluded, if at all possible, before the end of 1977;
15. Considers that the six-monthly consultations between representatives of the Commission and the United States constitute an appropriate forum for discussing bilateral and multilateral questions in order to achieve a common standpoint;
16. Notes with satisfaction that the six-monthly meetings between the delegations from the American Congress and the European Parliament have created a better understanding of the attitudes prevailing on both sides of the Atlantic and considers it vital for these meetings

to be continued in order to improve even further the relationship between the United States and the Community;

17. (a) Hopes that the political links between the United States and the Community as such will be consolidated in the years to come;
 - (b) Expects the new Administration to make every effort to remove existing obstacles to trade, and also to oppose protectionist trends in the interests both of bilateral relations and of the fruitful expansion of world trade;
 - (c) Considers it necessary to work towards a balanced development of trade;
18. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities and also to the Administration and Congress of the United States.

EXPLANATORY STATEMENTI. Introduction

1. This subject is difficult to circumscribe because the economic relationship between the Community and its most important ally, the United States of America, extends over a large number of areas: for example, agriculture, energy and raw materials, monetary questions, development cooperation and, last but not least, purely commercial matters. These subjects, although they interlink, all deserve individual study. In addition, the Community (or at least the Member States) and the United States meet not only on a bilateral level but also within certain international organisations (GATT, UNCTAD, the North-South Dialogue, IEA, IMF). It is not possible to make a thorough study here of every aspect of our relationship with the United States. For practical reasons, your rapporteur has confined himself in this report mainly to those questions which have attracted great interest over the past twelve months. Prominent among these were the difficulties experienced in bilateral trade and particularly the action taken in America to restrict imports. Some attention is also given to the import and export of agricultural products. Finally your rapporteur has made a short summary of the multilateral trade negotiations now under way in Geneva.

II . PROTECTIONIST INITIATIVES

A. GENERAL SITUATION

2. For some time there has been serious concern in the Community at moves in the United States to restrict imports of certain products from the Community. Pressure groups have already laid various complaints before the American Government alleging export promotion practices by Community Member States that are detrimental to the corresponding US industries. In a number of cases the complaints relate solely to the damage to US industry from EEC exports and make no reference to illicit practices. The Government has been asked to investigate these complaints and take the necessary measures to restrict imports.

3. The legal basis for these measures is the new Trade Act adopted at the end of 1974, which although introduced to facilitate the multilateral talks in GATT (the Tokyo Round) on the further liberalization of world trade, contains a number of safeguard clauses which have made it easier for private interests to apply for protectionist measures. The measures which may be adopted as a result of the investigations undertaken can be broken down into five legal types:

- (a) countervailing duties against concealed or open export subsidies (rolled steel, tinned ham, cheese, float-glass): if a direct or indirect subsidy or aid is granted to the production or export of a particular article, the US Government may in principle levy a countervailing duty equal to the amount of the subsidy (it seems, however, that the American Government is considering including a damage clause in the provisions, and the Commission is understandably urging this);
- (b) anti-dumping duties to counter alleged dumping practices (cars);
- (c) safeguard measures against disruption of domestic production (shoes, special steels), based on specific safeguard clauses; here it would suffice to demonstrate damage to national industry without any suggestion of illicit practices;
- (d) continuation of safeguard measures after their expiry;
- (e) restrictive measures against 'unfair practices' within the meaning of Article 301 of the Trade Act.

However, all these measures would have the same effect, the restriction of imports.

4. The American Government has received complaints based on the Trade Act affecting a total of more than 4,500 million dollars worth of export products, which is somewhat less than a quarter of our total

exports to the United States. The most important products subjected to investigation that were or may still be threatened with restrictions are:

- cars (2,530 million dollars)
originating mainly in Germany, Italy, the United Kingdom and France
- rolled steel (962 million dollars)
originating mainly in Germany, France, the United Kingdom and Belgium
- shoes (381 million dollars)
originating mainly in Italy
- tinned ham (283 million dollars)
originating mainly in Denmark and the Netherlands
- certain types of cheese (107 million dollars)
- certain types of steel (39 million dollars)

But a whole range of other products (from knitting-machines to mushrooms) is threatened with import restrictions.

5. In the other direction, the Community is accused by the United States of restricting the import of American soya beans as a consequence of the Council's recent decision to compound compulsorily purchased surplus milk powder into animal feed - instead of soya beans - in order to reduce the milk-powder mountain.

6. The Community institutions are having difficulty in accepting the legal arguments used in support of these protectionist US measures. It is feared that the provisions of the Trade Act are simply being used to exclude imports of foreign products. In addition, the political climate in the United States is affected by the presidential elections, allowing the interest groups to put considerable pressure on the Government, since President Ford can and will in these circumstances demonstrate that American interests are very close to his heart.

7. However, a distinction must be made here between private sector initiatives and American government measures. Up to the present time the government has fortunately been fairly reticent about the claims made and has hardly bowed to the pressure of interest groups. In a number of cases (rolled steel, tinned ham and float-glass) the demand for the introduction of countervailing charges has been dismissed. It must be added, however, that an appeal against this decision is still pending before the American Customs Court with respect to rolled steel (VAT refund) and float-glass (regional aid). Nor has the American President reacted to the demand for shoe imports to be made subject to a quota system. Investigations into the dumping of cars

were suspended for various reasons (price agreements). An 'orderly marketing arrangement', on special steels has been concluded with Japan and quotas imposed on all other importing countries. Finally it should be recalled that the Commission voluntarily withdrew subsidies on exports of certain kinds of cheese to the USA some time ago.

8. In the United States there exists a myth that American commercial interests in Europe have been harmed by the establishment of the Common Market: it is said that by contrast with the past American products can no longer, for instance, compete on the same footing with British products on the German market, or with German products in France.

In fact, the contrary is true, since exports from the United States to the Community in all areas, particularly agriculture, have increased, as the following figures will show. Moreover, there is a clearly perceptible revival in the American economy, which is expected to continue for the moment. Consequently, import restrictions are in no way justified by the present economic situation. It is therefore understandable that the Community is still seriously concerned, both about the bilateral relations between the two partners and the multilateral Tokyo Round negotiations. If the American Government had yielded on all fronts to the pressure being put on it by the interest groups, more complaints would inevitably have followed with all their implications for European exports.

Some figures on trade¹

9. Traditionally, the United States has a surplus in its balance of trade with the European Community: between 1958 and 1972 this averaged (with the Six) 1,500 million per year. In the first 9 months of 1975 the American balance of trade surplus with the European Community of Nine reached a new record of 6,900 million dollars. At that time it looked as if the surplus for the whole of 1975 would amount to 8,000 million dollars (source: Commission statistics).

The Community's enormous balance of trade deficit with the United States must be attributed primarily to the considerable fall in American imports from the European Community, by 2,000 million dollars compared with 1974.

10. The figures for trade in agricultural products are even more spectacular, considering the constant criticisms of the common agricultural policy. In the first 9 months of 1975 exports from the United States

¹See also Agence Europe, 19 March 1976

to the European Community amounted to 4,500 million dollars, while only 900 million dollars worth of agricultural products were imported from the Community. The Community is, moreover, the most important outlet for American agricultural products (25% of total US agricultural exports). American agricultural exports to the Nine rose from 2,700 million dollars in 1972 to nearly 5,000 million dollars in 1975. Over the same period imports from the Community rose from 531 million dollars to approximately 1,200 million dollars. In 1974 the American balance of trade showed a surplus of 4,200 million dollars.

11. It may properly be concluded from the above figures that American exports have suffered no demonstrable harm from the establishment of the Common Market.

Some data on foreign investment in the USA¹

11A. A short time ago Americans - probably for the first time in their history - became alarmed at the presence of foreign interests in their country. The main reasons for this are:

- (a) the fear of the increasing influence of oil exporting countries in American industry as a result of the oil crisis;
- (b) a sharp rise in foreign investment over recent years.

On the first point it should be noted that the investments of the oil exporting countries in the United States have, contrary to fears, remained extremely limited. That spectacular investment which has taken place in Europe has not become apparent.

On the second point, this rise is due mainly to activities by the Western industrial countries, i.e. the Community, Canada and Japan from which the greater part of investment has always come. Americans are as yet undecided whether this wave of investment is a temporary phenomenon or the start of a new trend. The predominant view is that it will slacken off in the near future because European and Japanese firms will be forced by economic considerations to moderate their investment plans. (There are figures which show that foreign companies reduced new investment in the United States by 35% in 1975.) Others, however, wonder whether a permanent change of behaviour has not taken place. The creation of larger firms in Europe and greater familiarity with larger markets as a result of integration has meant that there is less diffidence than in the past towards entering the American market. In addition, production costs in the United States e.g. wages are because of enormous inflation which has taken place in recent years in Europe (and Japan), relatively speaking not so high as they were.

¹See article by Paul Lewis in 'Europese Gemeenschap' of September 1976.

It has therefore become profitable to begin production in the United States.

In spite of these considerations, the fact remains that the level of direct foreign investment in the United States is still considerably lower than that of American investment abroad (22 thousand million dollars as against 121 thousand million). This trend has, however, led to the submission of a number of bills in the American Congress aiming to place more stringent controls on new investment from abroad. The Ford administration has taken a rather reticent line on these proposals for a number of reasons (the relatively small volume of investment, the employment opportunities created, the improvement of the balance of payments). The administration has nevertheless taken a number of measures, e.g.:

- an investigation into all important aspects of foreign investment activities in the United States;
- the setting up of a new 'Foreign Investment Committee' to coordinate Government policy and investigate controversial projects (although it has no power to take decisions).

In addition two laws came into effect this year which:-

- grant the administration stricter powers of surveillance over the expansion of foreign investments;
- place stricter requirements on would-be foreign investors.

Although it can be assumed that these measures were mainly intended as a precaution against a sudden wave of investment from the Arab world, it is in the Community's interests to keep a close watch on developments in American legislation on investments.

B. THE SITUATION BY CATEGORY AND PRODUCT¹

(a) Countervailing duty investigations affecting the EEC under section 331 of the Trade Act of 1974

Legal Basis

Section 331 of the Trade Act of 1974 amends sections 303 and 516 of the Tariff Act of 1930.

Procedure

¹Your rapporteur takes a closer look here at products which occupy a relatively important position as regards export and which have been commented on by the press, including those on which the American Government has already taken a decision.

12. Once Treasury has accepted and published the receipt of a valid petition, it has up to six months to conduct an investigation and issue a preliminary determination as to whether a bounty or grant (subsidy) exists. During the period when the existence of a bounty or grant is still in question, discussions about possible application of waiver provisions are not normally carried on, but governments are requested to supply data relative to the alleged subsidy. Failure to obtain data from the concerned country normally results in a preliminary decision being made on the basis of the best information available (which is usually that supplied by the person filing the complaint). If, after completing its investigation, Treasury finds preliminarily that bounties or grants do exist, the Trade Act provides an additional six-month period during which discussions with the country concerned may be held to determine whether the criteria established in the Trade Act for the exercise of discretion in the imposition of such duties can be met. This discretionary period expires on January 4, 1979.

Congress, by a simple majority of either House, can override a decision by the Secretary of the Treasury to waive countervailing duties. The Treasury Secretary can also revoke his waiver decision if the condition which led to it no longer exists. This provision was designed to be used in limited instances. It does provide the opportunity to avoid major trade negotiation problems as the result of a countervailing duty action.

13. Screws are the only product on which an investigation is still in progress (complaint: special subsidies; Member State concerned: Italy; export value: \$1.9 million). The government has set aside claims concerning rolled steel (complaint: VAT refund; Member States concerned: all except Denmark and Ireland; export value: \$962 million) and float-glass (complaint: regional aid; Member States concerned: Germany, France, Great Britain, Belgium). The American Treasury has imposed a countervailing duty of 10% on Italian float-glass until the Italian government supplies additional information on its regional aid system for individual firms. The Commission has itself withdrawn the export subsidy for four kinds of cheese and the American authorities have lifted the countervailing duties on certain others (export value: \$ 107 million).

Rolled Steel

14. In October 1975 the American Government rejected the application by the US Steel Corporation for an investigation of its complaint that the Community countries were refunding VAT on steel intended for export to the United States. The US Steel Corporation had linked this with a demand for the levy of additional duties on imported steel. The

opinion of the Department of the Treasury was that the VAT refund could **not** be regarded as an export premium or subsidy to manufacturers or exporters within the meaning of the American legislation.

The Commission had already pointed out that there was no question of discriminatory practices since this system was also applied to trade between the Member States. Moreover, exemption from indirect taxes on exports allowed by the GATT.

15. The US Steel Corporation has appealed against this decision to the American Customs Court. It will be some time before a judgment is handed down and it is by no means certain that the Court will find in favour of the Department of the Treasury. If it does not, there is serious cause to fear that imports from the Community will be hit by a **suspension** of customs procedures.

(b) Anti-dumping investigations affecting the EEC under the anti-dumping act of 1921, as amended by section 321 of the Trade Act

Procedure

Preliminary determination:

16. Under US law, the Treasury must normally within 6 months (nine months if the investigation proves particularly difficult), reach a preliminary determination on dumping, i.e. whether sales at less than fair value (LTFV) have taken place. When the **Treasury** has substantial doubt whether a US industry is being, or is likely to be, injured by LTFV sales, it invites the International Trade Commission (ITC) to conduct a separate preliminary enquiry into the injury aspect. The ITC has thirty days in which to reply. If the ITC determines that there is 'no reasonable indication' of injury, then the Treasury's preliminary investigation into LTFV must be discontinued at once. In any other circumstances (e.g. if the ITC is unable to reach an opinion within thirty days, or if it determines that there is in fact injury), the Treasury investigation must continue.

Final determination:

17. If the preliminary determination on dumping is positive, i.e.: to the effect that LTFV sales have taken place, the Treasury must withhold customs appraisement. Within a further period of three months both the Treasury and the ITC have to reach their final determination. However, the interested parties may ask for an extension of the withholding of appraisement period from 3 to 6 months. In such a case Treasury must publish its final determination on LTFV not later than 3 months after the date of the preliminary investigation. Thereafter, the case is sent to the ITC. The ITC is required to reach a final determination as to whether or not LTFV is causing, or is likely to cause, injury to US industry. If the ITC determination is against injury, the investigation ceases. If the ITC determines that there is injury and the final dumping determination of the Treasury is also positive, then anti-dumping duties are applied.

18. The following products are the subject of such investigations:

cars, water circulating pumps, ski bindings and knitting-machines.

Cars (countries concerned: Germany, France, Italy, UK; export value: \$2,530 million)

19. In the middle of 1975 the United Autoworkers Union, with the support of Congressman Dent, requested the Department of the Treasury to set up an investigation into the dumping of imported cars, regardless of origin. The union fears increased unemployment in consequence of imports of foreign cars.

20. In a note to the American authorities, the Commission strongly criticised the initiation of this investigation, adducing the following arguments:

- (i) Cars produced in the Community and exported to the United States are reasonably priced and clearly cause the American industry no harm.

The United States car industry is doing well as regards compact and smaller cars - the only sector where cars from the Community compete directly with the American product. Between April and July 1975 sales of foreign cars had increased by 9.8%, while for American cars of the same type, the figure was 55.8%. Against this, the Americans maintain that the GATT anti-dumping code requirement is not that the cars be 'reasonably priced', but that they should not be sold in the United States at a lower price than in the country of origin. However, in 1975, large stocks of 1974 model European compact cars were sold at 1974 prices.

- (ii) The stagnation in the American car industry should be ascribed to factors other than imports, such as the economic recession, the energy crisis and the slowness of manufacturers in reacting to the changed demand from consumers for smaller models using less fuel. The increased sales of compact cars (17.4% of the total US market in 1974 as against 18.4% in the first 6 months of 1975) is the consequence notably of the rising energy prices and the rising price of the large type of American car.
- (iii) The investigation is in conflict with the anti-dumping code of the General Agreement on Tariffs and Trade (GATT), signed by both the United States and the Community. The Commission bases this view particularly on the consideration that according to Article 5(a) of the GATT anti-dumping provisions an investigation can be instigated only in certain circumstances:
- in 'normal' circumstances, at the request of an industry;
 - in 'special' circumstances, where a government - without the industry having laid a complaint - has proof of possible dumping practices and that the industry is suffering a disadvantage as a result.

According to the Commission, neither of these conditions has been met.

Article 3 of the anti-dumping code further provides that the dumping practices complained of must be proven, and demonstrably the major cause of material damage, or impending material damage.

21. In this connection it is interesting to note that the Wages and Price Stability Council established by Congress - which in a certain sense represents consumer interests - has come out against the anti-dumping investigations. In that body's view, the levying of anti-dumping duties would result in:

- the prices of American cars being driven even higher,
- energy consumption increasing owing to a considerable rise in the sale of large cars.

22. The American Secretary of the Treasury concluded the investigations on 13 August 1976 after a system of price control which will remain in force for two years, had been set up for certain companies. There were two reasons for this decision:

- (i) the particularly adverse reactions in the Community, Japan and Sweden;
- (ii) the decline in sales of foreign cars on the American market (from about 21% in August 1975 to 14% of this market at the present time).

Trade in cars - some key figures

23. In 1974 a total of 7,500 million dollars worth of cars were imported into the United States. United States domestic production in the same period totalled 20,800 million dollars. The Community exported a total of 2,500 million dollars worth to the United States, distributed as follows: Germany 1,900 million, Italy 240 million, United Kingdom 156 million, France, 46 million dollars.

The most important individual exporter to the United States market outside the Community was Canada (3,000 million dollars), followed by Japan (1,700 million dollars) and Sweden (2.7 million dollars).

Sales of cars in the United States (of all kinds) have fallen since the 1973 peak. At the same time the market share of imported cars (of all kinds) rose from 15.1% in 1973 to 20.2% in the first 7 months of 1975.

The American sales position is stronger than would seem at first sight, if account is also taken of the fact that several European companies and virtually all Canadian production are controlled by American interests. Between 1971 and 1974

more than 13% of the cars imported into the United States were produced by subsidiaries of the three most important United States manufacturers.

(c) Safeguard investigations affecting the EEC under section 201 of the Trade Act Procedure

24. Once a complaint has been filed, the International Trade Commission (ITC) must initiate an investigation, which will include public hearings at which interested parties may present their views, and must within six months make a report to the President. If the ITC finds that serious injury or threat of serious injury substantially caused by increased imports exists it must find the amount of increase in duty of the imposition of other import restrictions necessary to remedy the injury. Alternatively, the Commission may recommend to the President that adjustment assistance be provided.

Following the receipt of an affirmative ITC report, the President must make a decision within 60 days from receipt of the report. However, he has the option, within 15 days from receipt of the report to request additional information from the ITC. The ITC must supply this additional information within 30 days from receipt of the President's request.

If the President determines that he will not provide import relief or that he will take actions other than those recommended by a majority of the Commission, he must report such action to the Congress, which then has ninety days to disapprove of the President's action. If the Congress disapproves, the President within 30 days must proclaim the import restrictions recommended by the ITC.

25. The following products are the subject of such investigations: special steels, shoes, zips, industrial gloves, mushrooms, Prussian blue shrimps, steel wire, honey and stainless steel cutlery.

Special steels (countries concerned: mainly Germany, France, the United Kingdom and Belgium; export value: \$39 million)

26. On 17 January 1976 the International Trade Commission recommended the President of the United States to apply quotas to imports of special steels for a period of 5 years, since damage was being caused to the domestic industry: ('safeguard' measures do not count as unfair competition). In the Community, Germany, the United Kingdom and Belgium would be particularly affected; outside the Community, Japan and France.

27. The President rejected the ITC's recommendation and invited the suppliers of special steels to limit their exports to the United States of their own accord. The United States intends to hold further discussions with the countries concerned on 'orderly marketing arrangements' (in the form of a quota for each country). Only Japan has concluded an 'orderly marketing arrangement' containing self-restraint measures. On 14 June 1975 quotas were imposed on all other suppliers.

28. Imports into the United States of certain special steels from the Community rose from 22,000 tons in 1970 to 33,000 tons in 1974. Since then this figure has dropped (20,000 tons in the first nine months of 1975 as against 22,000 tons for the same period of 1974). In the same period imports from Japan rose from 34,000 tons to 63,000 tons; this trend continued in 1975.

29. According to the Commission, the increase in imports in 1975 was due to a temporary shortage of special steels in the United States in 1974. Self-restraint measures are therefore regarded by the Commission as completely unacceptable and it is consequently not prepared to negotiate on 'orderly marketing arrangements'. Sweden has also rejected voluntary restraint. The Commission also reserved the right to take retaliatory measures pursuant to Article XIX of GATT.

30. As from 14 June 1976 an annual quota of 32,000 short tons (= 907 kg) was imposed on the Community, allocated between 5 product types. For one of these - stainless steel plate - the first six-month quota had been taken up by the end of September 1976. The Commission is pressing the American authorities to lift the quota restrictions at the earliest opportunity and to show the greatest possible flexibility in the meantime.

Shoes

31. Shoe manufacturers in the United States have also asked for quotas on shoe imports. Although the International Trade Commission considers that considerable damage has actually been caused to the American industry, it has failed to reach agreement on the measures to be taken.

32. The President of the United States decided against a quota system and supplementary duties, for three reasons:

- the risk that import restrictions might push up prices on the domestic market;
- the danger of reprisals by certain countries;
- the revival of the US economy.

At the same time the President decided to take internal measures to counter the difficulties in the US shoe industry.

Between 1970 and 1974 imports of shoes into the United States increased by 19%, while American production fell by the same percentage. In 1974 imports accounted for 34% of the US market.

The most important exporting countries are Italy, followed by Spain and Brazil; France, the United Kingdom, Germany and Ireland also export shoes to the USA.

33. On 22 September 1976, however, the American Senate Finance Committee adopted a resolution inviting the International Trade Committee to resume its investigations into imports of shoes, pursuant to Article 261(e) of the Trade Act.

(d) Safeguard investigations affecting the EEC under section 203(i) of the Trade Act

Legal Aspects

34. The Trade Act provides this vehicle for parties who have an interest in the continuation of safeguard measures taken in the past but about to expire. Such a party may file a petition with the International Trade Commission (ITC) which will then conduct an investigation to determine the probably economic effect on the industry concerned of the extension, reduction or termination of the import relief provided.

Procedural aspects

Interested parties have to file their petition with the ITC not earlier than 9 months and not later than 6 months before the expiry of the current import relief measures. After investigation, including public hearings, a report has to be made to the President; thereafter the procedure develops on the same lines as in section 201 complaints.

35. The following products are the subject of such investigations:
kitchen utensils.

(e) Investigations into alleged foreign trade restrictions (section 301 of the Trade Act)

Legal and procedural aspects

36. The Trade Act provides this vehicle for parties who believe they are disadvantaged by virtue of certain unfair trade practices of other countries. Such a party may file a petition with the 'Office of the Special Trade Representative' (STR) outlining the practices in question. STR will then conduct a review of the allegations, which may include public hearings, at

which all parties' views may be aired. Following the required review, STR, using the interagency trade policy review group, will develop and forward recommendations to the President. Before the President can take action, he must hold hearings on proposed retaliation measures (unless 'the national interest' justifies that he acts otherwise).

There is no time limit in the law for review of Section 301 cases. Discussions will be held with the countries concerned in such cases as the review proceeds.

37. The following products are the subject of such investigations at present: proteins, fruit and vegetable preserves, barley malt, wheat flour and egg albumin.

38. In some instances the United States has already brought the matter before the contracting parties of the GATT. It has asked the Community to open the consultation procedure laid down in Article XXII-1 for barley malt and wheat flour. As for the Community system for importing processed fruit and vegetables, the United States, having opened negotiations under Article XXIII-1, has now asked for investigations to begin pursuant to Article XXIII-2.

39. One example of the 'unfair practices' of which the Community is claimed to be guilty, is the setting of minimum prices for preserved fruit and vegetables, although the Commission adds that these work to the advantage of the United States in view of the competition from other non-member countries who produce goods more cheaply.

C. CONCLUSION

40. Fortunately, the prospect of import restriction measures has considerably diminished since the American Government set aside the claims of the relevant interest groups for a number of major products - cars, rolled steel and shoes. One reason for this development is doubtless the revival of the economy in the United States.

41. The protectionist activities at one time concerned Community exports to the value of \$4,500 million, or between one fifth and one quarter of all Community exports to the United States. The latest American Government decisions have cut this figure very considerably (cars alone represent an export value of \$2,500 million). The greatest merit of the attitude of the American President and the Secretary of the Treasury is that the protectionist activities have not had a snowball effect on trade relations between the United States and third countries in general and with the European Community in particular.

42. But the danger has not entirely disappeared:

- as regards rolled steel, the threat remains until the courts give a decision on the United States Steel Corporation's appeal;
- as regards cars, the negative decision has been taken in the light of certain conditions which the Community exporters must fulfil;
- as regards special steels, the damaging effects of the American quota are not yet apparent;
- finally, the American Senate Finance Committee has invited the International Trade Commission to resume its investigations into shoe imports.

III. MULTILATERAL TRADE NEGOTIATIONS (TOKYO ROUND)

A. THE STAGE REACHED IN NEGOTIATIONS

43. No report on economic relations with the United States would be complete without some account of the multilateral relations involving the two partners and in particular the trade negotiations currently being carried on in GATT (the 'Tokyo Round'). These negotiations were officially opened in Tokyo on 12 and 14 September 1973. However, the negotiations proper could not be opened until the American Congress had approved the new law on foreign trade - the Trade Act - which sets out the American delegation's mandate. Talks are now being conducted at specialist committee level in Geneva. Both the Community and the United States, as major forces in world trade, have a key role in these talks. In the middle of 1975 the European Parliament gave its opinion on the Community's position in the GATT negotiations, based on a report drawn up by Mr Kaspereit on behalf of the Committee on External Economic Relations.¹

44. The intention was to bring the preparatory work to an advanced stage during 1976 so that the negotiations could be rounded off at the end of 1977. At present, however, the talks are affected by the election fever in the United States and have been put on ice, so it is not certain whether the timetable can be kept to. Significant progress seems to have been made in tropical products and technical progress in other sectors.

What were the five main elements worked out by the Community for these negotiations?

(a) customs tariffs

45. The Community is in favour of a 'substantial' reduction of customs tariffs. However this reduction should be coupled with world-scale harmonization in view of the considerable tariff disparities between different countries: generally speaking, the Community's tariffs are uniform and low - on the other hand the United States has many zero-rate tariffs along with many very high tariffs. The Community's formula implies a threshold below which no tariff reduction would be requested in order to avoid a situation in which the generalized preferences accorded to developing countries by the Community (and Japan) were made meaningless.

Last March the United States proposed important tariff reductions (50-60%), while wishing to confine harmonization to tariffs lying below a certain percentage (6.7%).

¹ Doc. 106/75 and Doc. 106/75/Ann.

(b) non tariff obstacles

46. This is a very complex and important component of the present negotiations. Examples of non-tariff obstacles are systems for establishing customs value, technical formalities of all kinds and also quota systems. GATT has drawn up a list of some 800 non-tariff obstacles, which shows that all the countries of the world apply measures of this kind. In the US they are used quite extensively. Efforts are to be made in negotiations to abolish as many as possible of the non-tariff obstacles.

47. The following specific non-tariff measures are applied by the United States:

(i) American selling price:

- here the customs authority fixes the value of imported goods - duties are not imposed on the value stated on import but on the basis of an identical product produced in the US.

(ii) The Buy American Act (of 1933):

- states that Government purchases must be confined to goods produced in America unless such American products are not available or the domestic product is considerably dearer (at least 6% and in some cases 12%) than the corresponding foreign product.

(iii) The Jones Act:

- No ship constructed abroad may transport goods between harbours on the American coast. The practical effect of this is that it is impossible for Community ship-builders to supply ships to the United States.

(iv) Domestic International Sales Corporation (DISC)

- Under this law of 1971 'DISC' companies can defer payment of 50% of the tax on profits from export operations: in certain circumstances - for instance if the profits are invested to increase exports - this is equivalent to exemption. The Community considers that the DISC tax rules constitute a concealed export subsidy. The Community has succeeded in having a committee set up in GATT to consider this matter.

48. It should, however, be remembered that not all non-tariff obstacles lend themselves to multilateral application (this is the case, for example, when only very few countries are concerned).

(c) the safeguard clause

49. Discussions are under way on making this GATT provision (Article XIX) more flexible. In most cases this is a complicated business due to the differences between the countries participating in the negotiations. In relations with the United States a major consideration is how far the latter will modify its rules in consequence of the new Trade Act. The Community believes that any relaxation of the safeguard clause must be coupled with arrangements for international compliance surveillance.

(d) the agricultural sector

50. The Community's approach is based on two principles: the encouragement of world trade and the stabilization of the world market in agricultural goods (especially cereals, rice, sugar and dairy products) on the one hand and upholding the principles of the common agricultural policy on the other.

It is common knowledge that the United States objects to the common agricultural policy.

Defending this, the Commission is asking for agricultural matters to be dealt with separately, whereas the United States feels that the common agricultural policy is too protectionist and wants to consider agricultural matters from the point of view of 'subsidies and countervailing duties'.

(e) developing countries

51. The multilateral talks must not be allowed in any way to undermine the position of the developing countries who are seeking special and differentiated conditions in all sectors of the negotiation.

52. In this connection it is worth recalling that the Tokyo declaration describes the tropical products sector as being a special, priority concern. Following this view the Community and the United States (and Japan, Canada, Sweden and other industrialized countries) have each made separate offers within the framework of the multilateral negotiations designed to ease the marketing of tropical products in the industrialized world. The main provision of the Community's offer is tariff concessions covering some 180 products (of which the most important are coffee, cocoa and tobacco). A number of these concessions are to be applied on the basis of the most-favoured nations clause (i.e. to all countries without discrimination) while others represent supplementary generalized preferences (and are consequently restricted to the eligible developing countries). However all the products concerned (including coffee and cocoa) are mainly exported by developing countries. The countries to gain the greatest benefit from this arrangement

will be those of Asia and Latin America. Those Member States which apply a special tax to these goods have either promised not to increase this tax in the future or at least to adopt a sympathetic viewpoint.

The US offer covering some 150 products is confidential. It will be made on the basis of the most-favoured nation clause and the principle of reciprocity.

B. CONCLUSION

53. In this working document your rapporteur has restricted his review to the major items on the agenda of the Tokyo Round. Perhaps the Commission representative could supply a coherent picture of the present state of the GATT negotiations with special regard to the relations between the European Community and the United States of America. This could then be incorporated into the final report.

As regards relations with the United States, your rapporteur wishes to recall the concern expressed by the Committee on External Economic Relations - in the Kaspereit report - at the fact that under the 1974 Trade Act, any agreement concluded during the negotiations must be submitted to the United States Congress for its opinion. Any results achieved could thus be declared null and void.

IV. FINAL CONCLUSION

54. The Community and the United States are the two most powerful trading units in the world. The Community alone accounts for some 40% of world trade. Other important points of similarity between the United States and ourselves are a high degree of technical development, an open market economy, a democratic form of government on the Western model and of course the historical and cultural ties between our two peoples. These factors all go to explain the close partnership which exists between the countries of the Community and the United States, although their points of view on matters of world policy are not always identical to ours.

At all events it is clear that the Community and the United States are each other's most important trading partner. For this reason alone they are closely interdependent. As a consequence of this, both partners are utterly devoted to the growth of world trade and therefore in principle they both favour the expansion of reciprocal trade. Since the creation of the Community, trade in both directions - expressed not in volume but in units of account - has almost quintupled¹ with the United States always having the advantage. This surplus on the American balance of trade with the Community has risen sharply in recent years, particularly 1974 and 1975. This increase is mainly the result of an imbalance in the agricultural products sector. Quite recently Mr Lardinois pointed out in his sensational speech of 24 August 1976 to the 'Soyabean Processors Association' in California that the value of the agricultural products which we import from the United States is five times that of our exports to her.

55. There are various explanations for the existence of a protectionistic climate in a situation which is so favourable to the United States; the reasons include the recession of recent years which did not leave America and Europe unscathed and the instruments created by the new 1974 Trade Act. As far as this is concerned, it should be remembered that the economic recovery has been faster in America than in Europe, while the real aim of the Trade Act is probably to speed up world trade negotiations in GATT.

¹See Annex II

Furthermore, there is the familiar criticism of the allegedly protectionistic nature of our agricultural policy - particularly the system of export subsidies - which means that the Community's exports are continually threatened with countervailing duties. Here your committee wishes to join Mr Lardinois in recalling that 35% of all agricultural products sold on the world market are in fact bought by the Community. In addition it is well known that the United States takes protectionistic measures in favour of its own agriculture. It would therefore be interesting if, for the purposes of comparison, Parliament made a study of the structure of American agriculture.

Finally, it can be argued that this year the American Presidential elections created a favourable political climate for all sorts of protectionistic measures. There would be little point in trying to establish in this report whether this was true or not. In any case there is no doubt that in general - leaving aside agriculture - the American Administration has not yielded to claims from the private sector that the Community is unable to comply with the regulation on special steels. (Once again a clear distinction should be made here between protectionistic initiatives and measures). This policy has prevented the disquiet on the trade front from spilling over into the general political relations between the Community and the United States which, at the moment, can be regarded as very good.

56. The American presidential elections were taking place on the day your rapporteur was completing the draft of this report. It is hoped that - whichever candidate is elected President of the United States - trade relations between us and America will proceed more smoothly over the next four years. Should, however, new unwanted difficulties arise, the six-monthly consultations between representatives of the Commission and of the US Administration will undoubtedly provide a suitable occasion for initiating remedial action. Here it can be added that the meetings - again every six months - between delegations from the European Parliament and the American Congress - even though less directly effective - have so far been very fruitful in creating a better understanding of problems, attitudes and conditions on both sides of the Atlantic.

US FOREIGN TRADE

(in thousand millions of dollars)

	1972	1973	1974	1975
<u>Exports to:</u>				
World	49.8	71.3	98.5	107.7
EEC (9)	11.9	16.7	22.1	22.9
Canada	12.4	15.1	19.9	21.8
Japan	5.0	8.3	10.7	9.6
<u>Imports from:</u>				
World	55.6	69.5	101.0	96.9
EEC (9)	12.5	15.6	19.2	16.7
Canada	14.9	17.7	22.3	22.2
Japan	9.1	9.7	12.5	11.4
<u>Balance with:</u>				
World	- 5.8	+ 1.9	- 2.5	+ 10.7
EEC (9)	+ 0.6	+ 1.1	+ 2.9	+ 6.1
Canada	- 2.5	- 2.6	- 2.3	- 0.4
Japan	- 4.1	- 1.4	- 1.8	- 1.9

Source: 'Highlights of US Import and Export Trade' : U.S. Dept. of Commerce.

THE COMMUNITY'S TRADE WITH THE USA

(in millions of u.a.)

	<u>EEC Imports</u>	<u>EEC Exports</u>	<u>EEC Balance with USA</u>
1953	2 390	1 603	- 787
1955	3 691	1 788	- 1 903
1958	3 952	2 622	- 1 330
1969	10 473	8 524	- 1 949
1970	12 300	9 306	- 2 994
1971	12 148	10 758	- 1 390
1972	11 782	11 593	- 189
1973	14 433	12 592	- 1 841
1974	19 430	15 205	- 4 225
1975	19 333	12 416	- 6 917

ANNEX III

US-EEC (9) TRADE IN AGRICULTURAL PRODUCTS (EXCEPTING COTTON)

(in thousand millions of dollars)

	<u>US</u> <u>Exports</u>	<u>US</u> <u>Imports</u>	<u>Balance</u>
1968	1.8	0.4	+ 1.4
1972	2.7	0.8	+ 1.9
1973	4.4	1.1	+ 3.3
1974	5.4	1.2	+ 4.2
1975	4.5	0.9	+ 3.6

Source : 'Foreign Agricultural Trade of the U.S. (FATUS).